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HSBC India Manufacturing PMI™

PMI points to a stagnation of Indian manufacturing sector during May

Key findings:

- Production falls for first time since March 2009
- Growth in new orders weakest in current 50-month expansionary sequence...
- · ... but export orders expand at fastest pace since January

Operating conditions in the Indian manufacturing economy stagnated during May. The seasonally adjusted HSBC $Purchasing Managers' Index^{TM} (PMI^{TM})$ – an indicator derived from individual diffusion indices measuring changes in output, new orders, employment, suppliers' delivery times and stocks of purchases – fell from 51.0 in April to 50.1 and was at a 50-month low.

Reflective of weaker gains in incoming new work and persistent power outages, output decreased in May, the first decline registered since March 2009. That said, production fell only slightly. Order book volumes rose for the fiftieth consecutive month. The rate of expansion was, however, marginal and the slowest in that sequence. Panellists suggested that demand was maintained, but commented on increased competition for new work and tough market conditions overall, particularly at home.

Encouragingly, foreign orders placed at Indian manufacturers rose at an accelerated pace during May. Growth in export business was solid and the fastest since January. Furthermore, the current sequence of expansion was extended to a nine-month sequence. Monitored companies indicated strengthening demand from key export clients. Meanwhile, unfinished business levels increased, amid evidence of power and water shortages. Backlogs of work rose solidly and at the quickest pace in five months.

A divergence was seen with regards to input and output prices. Whereas purchase prices rose, output charges were lowered

for the first time in four years. The rise in input costs was, nonetheless, slight and the slowest in the current 50-month inflationary period. Surveyed firms mentioned that oil, diesel, chemicals and machinery parts all had increased in price, but commented on lower prices paid for metals and plastic. Factory gate prices were discounted at a slight rate, with panel members reporting increased competition.

Companies operating in the Indian goods-producing sector signalled higher staffing levels during May, taking the current sequence of job creation to 15 months. The overall rate of increase remained slight. Hiring was mainly linked to increased levels of orders placed, but firms also commented on labour shortages.

As has been observed since April 2009, buying activity in the Indian manufacturing sector rose during May. The rate of expansion, however, was moderate and the slowest recorded since September 2011.

Holdings of raw materials and semi-manufactured goods were also accumulated in May. The pace of inventory building was slight, but the second-fastest in the year-to-date so far. Similarly, stocks of finished goods rose in May. The rate of increase was slight and broadly unchanged from one month previously.

Suppliers' delivery times in the Indian manufacturing sector lengthened during May, amid reports of powercuts and strikes. That said, vendor performance deteriorated to a lesser extent than in April.



The HSBC India Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index. Purchasing Managers' Index™ and PMI™ are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

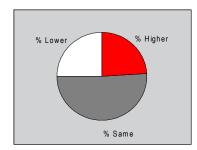




Output Index

Q. Please compare your production/output this month with the situation one month ago.



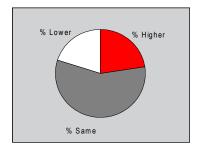


For the first time since March 2009, output in the Indian manufacturing sector fell during May. However, with one-quarter of the survey panel reporting lower production levels and 24% noting a rise, the overall rate of contraction was slight. Anecdotal evidence suggested that persistent powercuts hampered production. There were also reports of weaker gains in incoming new work at some plants.

New Orders Index

Q. Please compare the level of new orders received (India and export) this month with the situation one month ago.



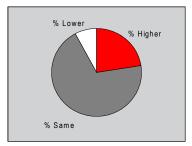


Companies operating in the Indian manufacturing sector signalled higher levels of incoming new work during May. That said, the rate of expansion was marginal and the slowest in the current 50-month period of growth. Companies that indicated higher levels of new orders stated that demand was holding firm. In contrast, panellists signalling lower order book volumes commented on increased competition and tough market conditions.

New Export Orders Index

Q. Please compare the level of new export orders received this month with the situation of one month ago.

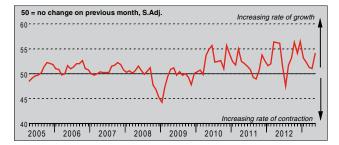




May data pointed to a further rise in new export orders at manufacturers in India, amid reports of firm demand from key foreign clients. The New Export Orders Index adjusted for seasonal factors indicated that the overall rate of growth was solid and the fastest since January. Furthermore, the index posted broadly in line with the long-run series average (54.1).

Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



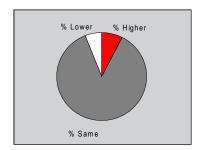


Unfinished business levels in the Indian manufacturing sector rose for the tenth month running in May. The seasonally adjusted Backlogs of Work Index was at a five-month high and indicated a solid pace of accumulation. Panel members reporting higher volumes of work-in-hand (but not yet completed) widely commented on power and water shortages.

Stocks of Finished Goods Index

Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



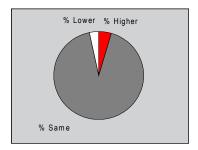


Indian manufacturers indicated a second consecutive rise in post-production inventories during May. The rate of accumulation, as indicated by the Stocks of Finished Goods Index adjusted for seasonal variations, was slight and little-changed from April. In contrast to almost 8% of monitored companies that indicated higher holdings of finished goods, exactly 6% noted a fall.

Employment Index

Q. Please compare the level of employment at your unit with the situation one month ago.



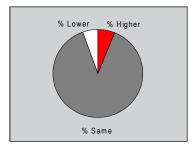


Goods producers in India signalled higher payroll numbers during May, taking the current sequence of growth to 15 months. The overall pace of job creation, however, remained slight. Surveyed companies signalling additional hiring linked this to increased levels of incoming new work. There were reports that labour shortages had restricted growth.

Output Prices Index

Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



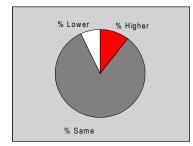


Average selling prices in the Indian manufacturing sector fell for the first time in four years during May. This was indicated by the seasonally adjusted Output Prices Index posting below the no-change level of 50.0. Evidence from panel members indicated that prices charged were lowered in line with increased competition for new work. Some companies also commented that a range of raw materials had decreased in price.

Input Prices Index

Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.

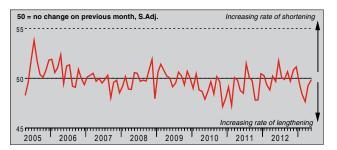


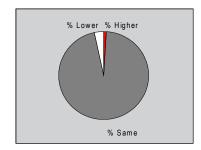


Continuing the trend that started in April 2009, prices paid for inputs by Indian manufacturers rose in May. That said, the rate of cost inflation was only slight and the slowest in that sequence. Anecdotal evidence suggested that oil, diesel, chemicals and machinery parts all had increased in price. Nevertheless, firms commented on lower prices paid for metals and plastic.

Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



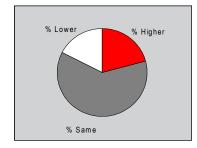


Vendor performance in the Indian manufacturing sector deteriorated further in May, amid evidence of powercuts and strikes. Nevertheless, average lead times lengthened to a lesser extent than in April. The seasonally adjusted Suppliers' Delivery Times Index posted below the no-change mark of 50.0 for the fifth successive month.

Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



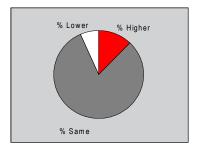


Extending the current sequence of growth to 50 months, input buying in the Indian goods-producing sector rose in May. However, in line with the weaker trend in production, the pace of expansion was moderate and the weakest registered since September 2011. Almost 21% of panellists indicated higher purchasing activity, citing new order growth.

Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.





In tandem with increased buying activity, stocks of raw materials and semi-manufactured goods in the Indian manufacturing sector rose during May. The rate of inventory building was slight, but the fastest since February. Furthermore, the Stocks of Purchases Index adjusted for seasonal influences has posted above the no-change mark of 50.0 throughout the past 13 months.

Notes on the Data and Method of Presentation

The Purchasing Managers' Index is based on data compiled from monthly replies to questionnaires sent to purchasing executives in around 500 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on industry contribution to Indian GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The Purchasing Managers' Index TM (PMI TM) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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